

# Audit Report

Community Action Agency, Inc.  
WIC Program

October 1, 2001 – September 30, 2002



Office of Audit  
Quality Assurance and Review Section  
June 2004



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
OFFICE OF AUDIT  
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JANET OLSZEWSKI  
DIRECTOR

June 14, 2004

Marsha A. Kreucher  
Executive Director  
Community Action Agency, Inc.  
1214 Greenwood Ave., P.O. Box 1107  
Jackson, Michigan 49204

Dear Ms. Kreucher:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Community Action Agency, Inc. WIC Program for the period October 1, 2001 through September 30, 2002.

The final report contains the following: description of agency; funding methodology; purpose and objectives; scope and methodology; conclusions, findings and recommendations; Statement of MDCH Grant Program Revenues and Expenditures; and the corrective action plan. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plan includes the agency's paraphrased response to the Preliminary Analysis.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in cursive script that reads "Debra S. Hallenbeck".

Debra S. Hallenbeck, Manager  
Quality Assurance and Review  
Office of Audit

cc: Alethia Carr, Director, WIC Division  
James B. Hennessey, Director, Office of Audit  
David Figg, Audit Manager, Office of Audit

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## **DESCRIPTION OF AGENCY**

The Community Action Agency, Inc. – Region II (“Agency”) is organized as a not-for-profit agency, under the provisions of 501(c)(3) of the Internal Revenue Code. The Agency’s Administrative Office is located in Jackson, Michigan. The Agency operates under the legal supervision and control of its Board of Directors.

The Agency operates approximately 40 programs that “help fight the war” on poverty. The Agency’s mission statement is to promote self-sufficiency. The programs include the following: Head Start, Early Head Start, other child-based programs, Housing, Literacy, other Community Service programs, Work First, Workforce Investment Act Employment Programs, Women Infants and Children (WIC) Supplemental Food Program, and Health & Nutrition Programs.

## **FUNDING METHODOLOGY**

The Agency receives funding from various sources including: U.S. Department of Health and Human Services, U.S. Department of Agriculture, U.S. Department of Housing and Urban Development, U.S. Department of Energy, U.S. Department of Labor, U.S. Department of Education, Family Independence Agency, Federal Emergency Management Agency, Michigan Department of Education, Michigan Department of Career Development, United Way Agencies, Michigan State Housing Development Authority, Life Ways, Jackson Community Foundation, various school districts, private contributors, and from grant programs administered through the Michigan Department of Community Health (MDCH). MDCH grant funding is reimbursed monthly, based on Financial Status Reports, in accordance with the terms and conditions of the grant agreement and budget.

Grant funding from MDCH for the WIC Program is federal funding under federal catalog number 10.557, and is first source funding, subject to performance requirements. That is, reimbursement from MDCH is based upon the understanding that a certain level of performance (measured in caseload established by MDCH) must be met in order to receive full reimbursement of costs (net of program income and other earmarked sources) up to the contracted amount of grant funds prior to any utilization of local funds.

## **PURPOSE AND OBJECTIVES**

The purpose of this audit was to assess the WIC Program internal controls and financial reporting, and to determine the MDCH share of WIC Program costs. The following were the specific objectives of the audit:

1. To assess the Agency’s effectiveness in establishing and implementing internal controls over the WIC Program.
2. To assess the Agency’s effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.

3. To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Agency.

## **SCOPE AND METHODOLOGY**

We examined the Agency's records and activities for the fiscal period October 1, 2001 to September 30, 2002. We performed our review procedures in July 2003. Our review procedures included the following:

- Reviewed the most recent Community Action Agency, Inc. Single Audit report for any WIC Program concerns.
- Completed the internal control questionnaire.
- Reconciled the WIC Program Financial Status Report (FSR) to the accounting records.
- Reviewed a sample of payroll expenditures.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed building space/lease costs for proper reporting and compliance with Federal Requirements.
- Reviewed WIC equipment inventory and general Agency equipment inventory records.
- Reviewed WIC coupon inventory controls.

Our audit did not include a review of program content or quality of services provided.

## **CONCLUSIONS, FINDINGS AND RECOMMENDATIONS**

### **INTERNAL CONTROLS**

**Objective 1:** To assess the Agency's effectiveness in establishing and implementing internal controls over the WIC Program.

**Conclusion:** The Agency was effective in establishing and implementing internal controls over the WIC Program. During our review, we did not note any material internal control exceptions.

## FINANCIAL REPORTING

**Objective 2:** To assess the Agency's effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.

**Conclusion:** The Agency generally reported their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we noted payroll system time allocation errors (Finding 1).

### **Finding**

#### **1. Payroll System Time Allocation Errors**

The Agency's payroll system erroneously allocated payroll costs based on budgeted allocations rather than actual time.

When an employee's actual time spent on programs differs from that employee's budgeted time, the payroll system uses the budgeted cost allocation, as entered during the original system setup, and overrides the current entry made by the payroll entry clerk.

The Office of Management and Budget (OMB) Circular A-122, Attachment B, Section 7 m. (2)(a) states that personnel activity reports must reflect an *after-the-fact* determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.

The net effect of the erroneous allocation was a minor under-reporting of total payroll expense. The potential adjustment would not affect WIC grant funds since the grant funds were already fully spent. Therefore, no adjustment is reflected on the Statement of MDCH Grant Program Revenues and Expenditures.

The payroll system was recently changed. Management needs to determine if the errors were corrected during the system conversion, or whether programming corrections are needed.

### **Recommendation**

We recommend that management examine the payroll system to determine whether the above concern was corrected or whether programming corrections are needed. We also recommend management monitor the system regularly for allocation accuracy.

## **MDCH SHARE OF COSTS AND BALANCE DUE**

**Objective 3:** To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Agency.

**Conclusion:** The MDCH obligation under the WIC Program for fiscal year ended September 30, 2002, is \$180,867. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting WIC grant program funding.

**Community Action Agency, Inc. (Region II)**  
**WIC Supplemental Food Program**  
**Statement of MDCH Grant Program Revenues and Expenditures**  
**10/1/01 - 9/30/02**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$180,867	\$180,867 <sup>1</sup>	\$0	\$180,867
Local Funds	\$0	\$17,299	\$0	\$17,299
<b>TOTAL REVENUES</b>	<b>\$180,867</b>	<b>\$198,166</b>	<b>\$0</b>	<b>\$198,166</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$104,654	\$111,325	\$0	\$111,325
Fringe Benefits	\$27,733	\$28,100	\$0	\$28,100
Equipment	\$0	\$0	\$0	\$0
Contractual	\$0	\$0	\$0	\$0
Supplies	\$2,000	\$2,441	\$0	\$2,441
Travel	\$1,000	\$198	\$0	\$198
Communications	\$0	\$0	\$0	\$0
Space Cost	\$0	\$0	\$0	\$0
Other Expense	\$27,078	\$34,920	\$0	\$34,920
Indirect Cost	\$18,402	\$21,182	\$0	\$21,182
<b>TOTAL EXPENDITURES</b>	<b>\$180,867</b>	<b>\$198,166</b>	<b>\$0</b>	<b>\$198,166</b>

<sup>1</sup>Actual MDCH payments. MDCH funding was provided on a performance reimbursement basis.



## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

**Finding:** Payroll System Time Allocation Errors

The Agency's payroll system erroneously allocated payroll costs based on budgeted allocations rather than actual time.

**Recommendation:** Examine the payroll system to determine whether the above concern was corrected or whether programming corrections are needed. Also, monitor the system regularly for allocation accuracy.

**Comments:** Upon the Agency's review of the problem, it was determined that the problem was not the fault of the payroll system but rather a data entry error. In the case cited, actual time worked by grant was not entered and the system defaulted to the budgeted allocation.

**Corrective Action:** The Agency is closely monitoring the payroll process to ensure errors do not happen in the future.

### Anticipated

**Completion Date:** Immediately.

**MDCH Response:** No comment.